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C O N F I D E N T I A L SECTION 01 OF 04 ADDIS ABABA 003422

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TAGS: [EAID](#) [PREL](#) [EFIN](#) [PGOV](#) [ET](#)  
SUBJECT: PRIME MINISTER MELES CRITICIZES U.S. STATEMENT ON  
WORLD BANK FERTILIZER LOAN

REF: ADDIS 2254

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Classified By: Ambassador Donald Yamamoto for reasons 1.4 (b) and (d).

Summary  
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¶1. (C/NF) The United States was successful in getting the Ethiopian Government's (GoE) attention with our statement to the World Bank on December 10 noting concern about continued funding of projects without the necessary macroeconomic fundamentals in place to ensure long-term growth and sustainability. For over two hours, at times in heated comments, Prime Minister Meles Zenawi argued to the Ambassador on December 18 that Ethiopia has experienced a 10 percent annual growth rate in agricultural output over five years and he could not understand how the U.S. could state that Ethiopia tilted against food production. More importantly, he asserted that the ruling party does not control the fertilizer market. Meles stated that the G-8 Summit in Yokohama earlier this year approved emergency support for developing countries like Ethiopia. World Bank President Zoellick arranged for money earmarked for projects to be diverted to emergency programs to support development. Meles argued that the USD 275 million fertilizer assistance for Ethiopia was such a project that the World Bank initiated as part of the G-8 process. Further, Ethiopia is working with the IMF on a USD 50 million balance of payments facility under which Ethiopia is pledging to adopt reforms to its economic structure. Meles argued that Ethiopia welcomes tough demands and discussions about its development strategy but refutes assertions espoused by the U.S. at the World Bank that Ethiopia is not implementing reforms. While the assistance package went through, Meles was clearly concerned that the U.S. would reject development projects for Ethiopia in the future and urged talks with the U.S. to review U.S. concerns to avoid any negative impact on assistance to Ethiopia and its development objectives. It is clear that Ethiopia remains focused on its ideologically-based economic policies without compromises. The United States' commitment to support economic reforms, critical to Ethiopia's development and stability, must be advocated and supported in coordination with other donor nations and the international financial institutions (IFIs), as well as through policy dialogue with the GoE. End

## Summary.

### Meles: U.S. Has it Wrong at the World Bank

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¶2. (C/NF) Ethiopian Prime Minister Meles told Ambassador December 18 in a private two hour conversation that the December 10 statement by the U.S. Executive Director to the World Bank on Ethiopia's USD 275 million fertilizer assistance, was wrong and could undermine Ethiopia's efforts to reform its economy and sustain its economic development. Meles highlighted that paragraph two of the U.S. statement noted that without substantial steps toward reform, the U.S. would not be inclined to support programmatic operations for Ethiopia by the World Bank. Further, the U.S. statement said Ethiopia must make policy commitments to correct economic distortions, especially in the agricultural sector. Meles refuted the U.S. statement arguing that Ethiopia has experienced 10 percent annual growth in agricultural output for five consecutive years. How can the U.S. make such a statement of Ethiopia's lack of policy commitment to agriculture when few other developing countries have managed to achieve such success.

¶3. (C/NF) Meles particularly flagged elements of paragraph 4 in which the U.S. stated that Ethiopia is clearly tilted against food production and that the government and enterprises owned by the ruling EPRDF party distort market incentives and limits profitability. Meles argued that the point in paragraph 5 that noted that Ethiopia stifles private sector suppliers of agricultural inputs implying that the government and ruling party controls or manipulates the market is absolutely false. Meles asserted

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that when the ruling EPRDF party overthrew the communist regime in 1991, it was the objective of the party to promote market mechanisms and to limit the government's management of agricultural inputs and outputs. The local agricultural cooperatives which developed at the local level and are controlled by local farmers and elders determines how much fertilizer to import for the cooperative members, it determines other inputs and outputs. It is not the government or party which determines or controls the purchase and distribution of fertilizer. It is too economically inefficient and beyond the capability of the government to control the fertilizer industry. In fact, Meles stated, the government and party does not want any part of the headache of managing the fertilizer market, that is the role of the privately owned cooperatives and market mechanisms. In frustration, Meles bluntly said the U.S. paid huge support assistance to Taiwan in the 1950s where the ruling KMT party controlled the market and all agricultural inputs and outputs. The EPRDF and the government does not do that in Ethiopia, Meles asserted.

### Why Is The U.S. Protesting a G-8 Directive?

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¶4. (C/NF) The Prime Minister detailed at length the G-8 meeting, which he attended as an invitee and in his role as chair for the NEPAD process, that the leaders of the G-8 agreed to commit themselves to support the economic growth efforts of developing countries. World Bank President Zoellick devised ways to get money distributed more quickly to developing countries. One way was to take money earmarked for projects and transfer them to meet emergency development needs. The World Bank worked with Ethiopia on the USD 275 million package, which the IMF fully supported, because it met a pressing need for hard currency to import fertilizer to help with agricultural output. The package met a fundamental need and fulfilled a G-8 promise to Africa. Meles expressed confusion and annoyance that the U.S. would raise issues not in compliance with the G-8 directive.

## Ethiopia Is Reforming Its Economy and Welcomes Talks

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¶5. (C/NF) Meles insisted that Ethiopia is committed to reform and promoting a transparent market process. Meles noted in the case of the IMF USD 50 million balance of payments facility, for instance, that Ethiopia is required to commit to economic reforms. Meles said Ethiopia approved the IMF approach and is committed to adjusting and reforming economic structures. In exasperation, Meles said Ethiopia welcomes tough talk on reform and Ethiopia agrees with the IMF on many issues because the IMF arguments are correct and the Ethiopians agree. With the World Bank, as well, Ethiopia has held very tough discussions and complies with Bank approaches.

¶6. (C/NF) Meles argued forcefully that the U.S. statement is out of line, making false conclusions of political party control of markets or lack of government will on reform. Meles said the negative U.S. attitude could undermine Ethiopia's development by stopping important loan agreements made by the IMF, World Bank, African Development Bank, and other financial institutions. Meles argued that there needs to be bilateral talks to resolve U.S. concerns and underscore Ethiopia's commitment to economic development and reform.

### It Is Not The G-8, But Accountability

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¶7. (C/NF) The Ambassador argued back that the intent of the U.S. statement is not to counter G-8 decisions or commitments by world leaders to help developing countries but to establish benchmarks and indicators that the money is being used effectively, efficiently, in support of clear economic development goals, and policy actions that better ensure the long-term sustainability and utility of the assistance. The Ambassador underscored that the U.S. cannot and will not support budgetary assistance. The

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U.S. did not hold up the World Bank fertilizer assistance package, but the U.S. made comments for transparency and, more important, an argument for a clear "game plan" by Ethiopia especially for agricultural development. In this context, the Ambassador noted that the assistance package was sudden and not discussed with the U.S. and the Ambassador urged the Ethiopians, as well as the World Bank, to discuss and coordinate well in advance with the U.S. and other donors on future multilateral assistance plans: why they are important, how the assistance will help meet core development goals, how donors can support the loan in other ways through assistance or projects, and what policy frameworks are in place to ensure that we will not have to provide the identical assistance again next year or in the future. The key is coordination, communication and advance heads up on pending assistance. The Ambassador and Prime Minister agreed on the need for bilateral discussions.

### Comment

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¶8. (C/NF) Our statement to the World Bank on December 10 succeeded in getting the Ethiopian Government's (GoE) attention, and by taking huge liberties with the details, Prime Minister Meles's arguments to the Ambassador suggest that the GoE will take great strides to avert the tying of assistance to U.S. or international calls for benchmarks, performance goals, or economic reforms not in compliance with Ethiopia's economic path to development. Among the liberties the Prime Minister took with the details were the fact that half of the \$275 million approved in the fertilizer package was new grant money, the other half was funding diverted from existing projects. Despite taking offense at our criticism of structural problems

in the agricultural sector, the U.S. statement actually quoted the Prime Minister himself in his March 18 speech to parliament in which he lamented Ethiopia's "backward and cumbersome" agricultural sector. The GoE is currently heavily involved in buying up a huge portion of the teff crop which is just entering the market to transfer supply to other regions and buoy prices.

¶9. (C/NF) In spite of the GoE assertion of 10 percent annual economic growth, agricultural output actually declined slightly last year and has dropped precipitously this year. The IMF has even called the GoE numbers "highly dubious" and acknowledged privately that growth in recent years has been around seven to eight percent. By taking a hard offensive stance on this U.S. statement and spinning facts, Meles is clearly trying to walk the U.S. back from the position articulated. The GoE is staunchly wedded to an ideology-driven economic approach, which counters our view and position for laying a sound foundation for long-term, sustainable economic growth. If we are to help break the Ethiopian cycle of poverty -- and aid dependence -- we must take a tough position bilaterally, in coordination with other donors and through the IFIs that represent the largest donors to Ethiopia. We will present (septel) a detailed analysis of the major IFIs' approach to Ethiopia and a strategy to align their activities better to meet Ethiopia's long-term economic development sustainably.

¶10. (C/NF) The Ethiopians have argued for a strategic, high-level, bilateral discussion on a wide range of issues to resolve misunderstandings, raise concerns, and enhance coordination and cooperation. The Embassy agrees that this is a good idea. In our private meetings with the IMF and World Bank in Addis, both organizations urged the U.S. not to block this and other assistance packages because of the emergency requirements of Ethiopia. But, for the U.S. Embassy, the fundamental concern is the need for advance communication and coordination with the World Bank and IMF and also tough discussions with other donors and IFIs on assistance approaches. While our coordinated donor group meetings highlight Europe's budgetary assistance approach and the U.S. project focused approach, we believe we need to focus more clearly on shared values and common goals on development.

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¶11. (C/NF) The donor group needs a comprehensive and tough discussion with Ethiopia's leadership over development goals and mechanisms and means for achieving such goals -- discussions which have not taken place but are needed. More specifically, we must take a leadership position in shifting the current approach by the World Bank and IMF from one of just programming money to ensure an ongoing presence in country and access to officials to one in which assistance programs will only be proposed to the Boards of Directors if and when adequate policies are in place to ensure the utility and sustainability of such assistance. Establishing benchmarks for success and indicators for economic reform will help avoid public disagreements between the U.S. and Ethiopia at the World Bank or other public forums when discussions center on assistance to Ethiopia, but more importantly will ensure that bilateral and multilateral assistance contributes to sustainable long-term development and does not simply underwrite failed economic policies. End Comment.  
YAMAMOTO